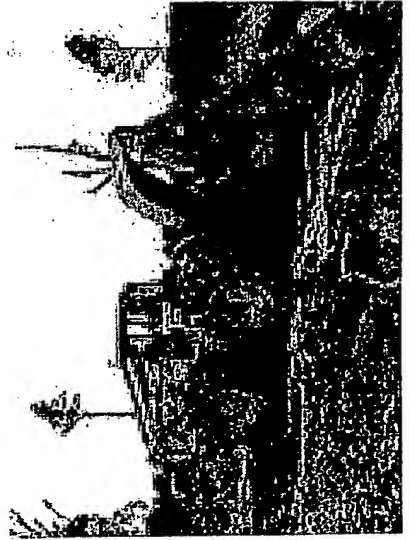# Caterpillar GloVE
LKE Pilot Dealer Meeting

December 16th & 17th, 1999

Jacksonville, FL

PRICEWATERHOUSECOOPERS

CAT LKE PILOT MEETING

Overview of LKE Basic Rules

- Non-Recognition Requirements
- Ineligible Property
- Basic Transaction
- LKE Transaction
- Receipt of Cash or Other Property

CAT LKE PILOT MEETING

Overview of LKE Basic Rules

Section 1031(a) provides that—

No gain or loss shall be recognized on the exchange of property held for productive use in a trade or business or for investment if such property is exchanged solely for property of like-kind which is to be held either for productive use in a trade or business or for investment.

CAT LKE PILOT MEETING

Section 1031 Nonrecognition Requirements

1) Property surrendered and property received must be held either for productive use in a trade or business, or for investment;

2) Property surrendered and property received must be of "like-kind;" and

3) Must be an exchange (as distinguished from a sale and repurchase).
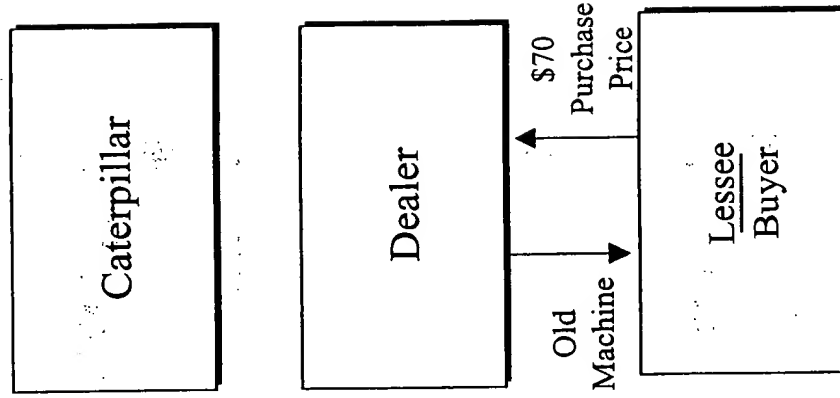
CAT LKE PILOT MEETING

Ineligible Property

Like-kind exchange treatment is not available for—

1. **Inventory,**
2. Stocks, bonds, or notes,
3. Other securities or evidences of indebtedness,
4. Partnership interests,
5. Certificates of trust or beneficial interests, or
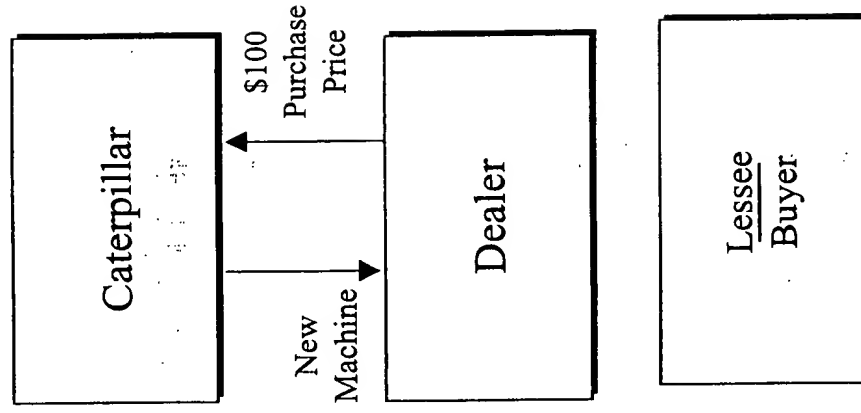6. Chooses in action.
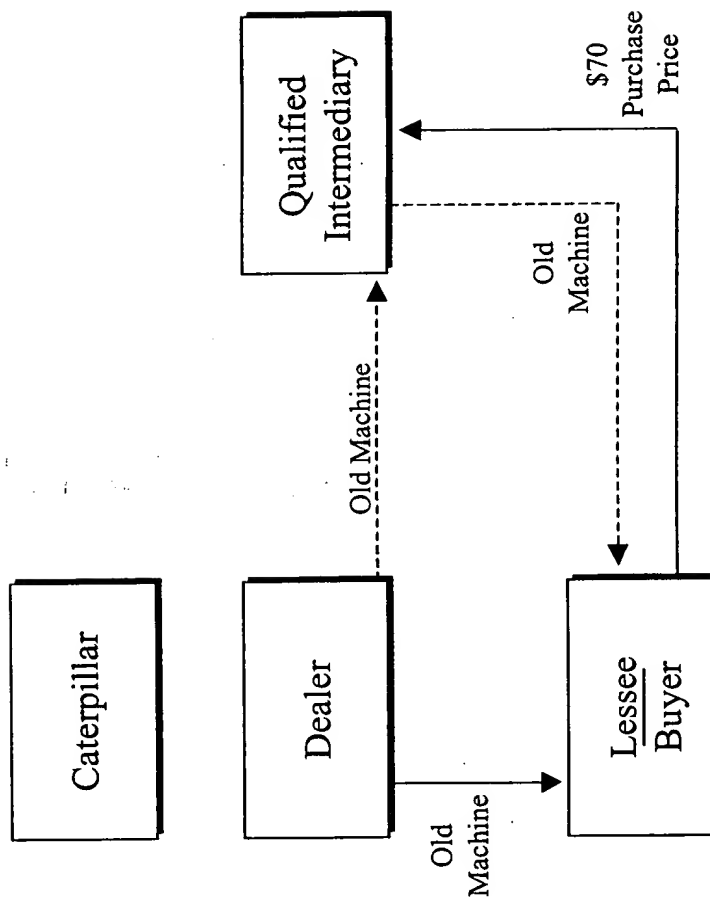
CAT LKE PILOT MEETING

Basic Transaction

Caterpillar

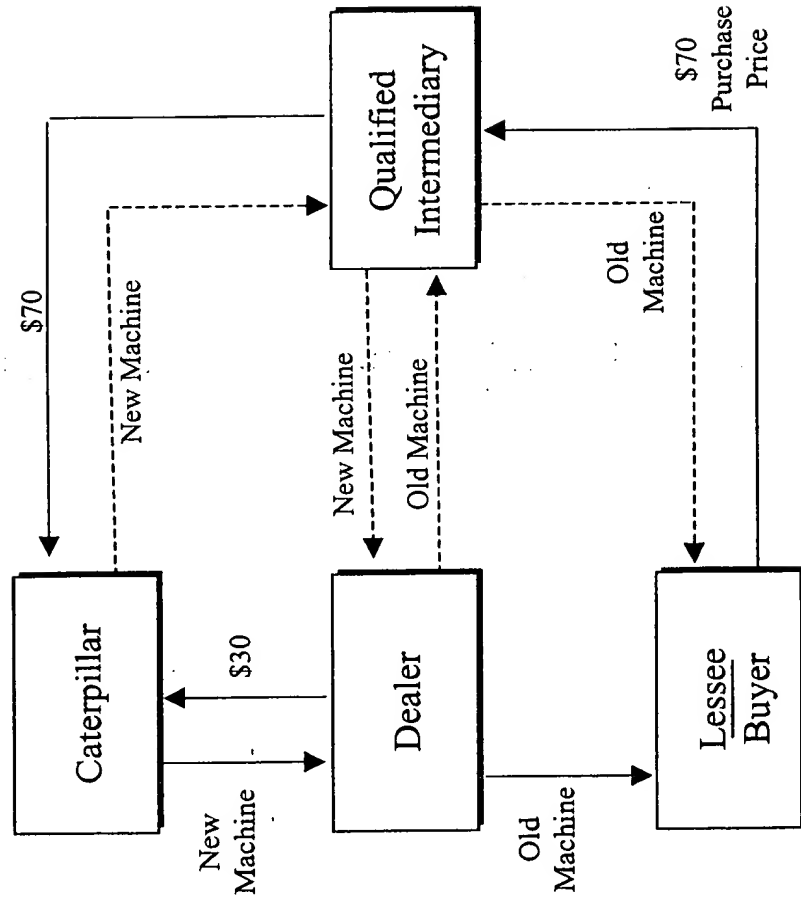| Dealer |
| --- |

$70 Purchase Price

Old Machine

Lessee Buyer

CAT LKE PILOT MEETING

Basic Transaction

```
┌─────────────────┐                    ┌─────────────────┐
│                 │   $100             │                 │
│                 │ ◄── Purchase ───── │                 │
│   Caterpillar   │      Price         │     Dealer      │
│                 │ ─── New ─────────► │                 │
│                 │     Machine        │                 │
└─────────────────┘                    └─────────────────┘

                                       ┌─────────────────┐
                                       │     Lessee      │
                                       │     Buyer       │
                                       └─────────────────┘
```

CAT LKE PILOT MEETING

LKE Transaction

Caterpillar

Dealer

Qualified Intermediary

Lessee / Buyer

Old Machine

Old Machine

Old Machine

$70 Purchase Price

CAT LKE PILOT MEETING

LKE Transaction

Caterpillar — New Machine → **Dealer** — Old Machine → **Lessee / Buyer**

$30 (Dealer → Caterpillar)

$70 (Qualified Intermediary → Caterpillar)

New Machine (Caterpillar → Qualified Intermediary)

Qualified Intermediary

New Machine / Old Machine (Dealer ↔ Qualified Intermediary)

Old Machine (Qualified Intermediary → Lessee/Buyer)

$70 Purchase Price (Lessee/Buyer → Qualified Intermediary)

CAT LKE PILOT MEETING

Receipt of Cash or Other Property

- If the property received in exchange consists not only of replacement property but also of other property or money, then gain shall be recognized to the extent of such money or the FMV of such other property.

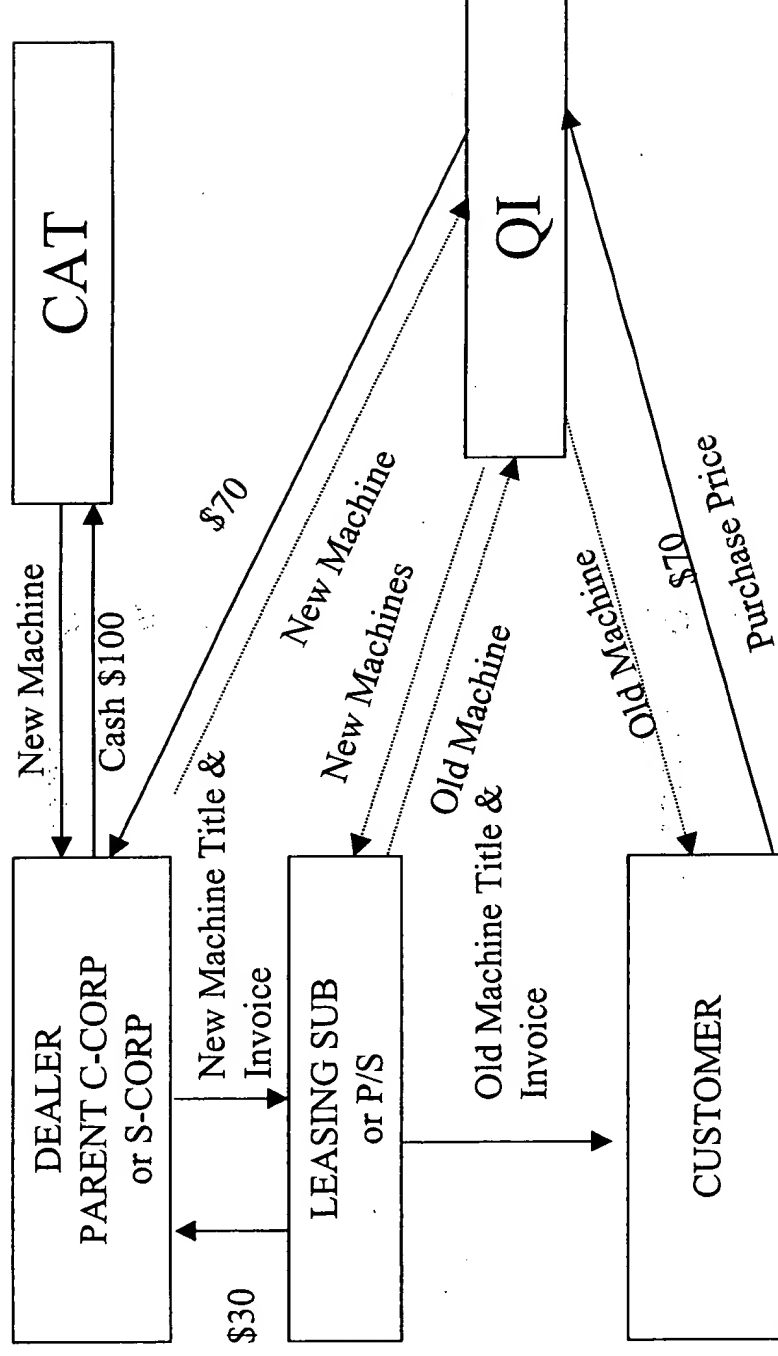- Trade-In treated as other property.

CAT LKE PILOT MEETING

LEASING ENTITY STRUCTURE

Benefits of Separate Leasing Entity Structure:

- Cash Flow

- Identification of Rental Property

- Facilitates Trade-Ins

- Treatment As Depreciable Property

- Warranty

CAT LKE PILOT MEETING

LEASING SUBSIDIARY STRUCTURE

CAT

DEALER PARENT C-CORP or S-CORP

LEASING SUB or P/S

CUSTOMER

QI

New Machine

Cash $100

New Machine Title & Invoice

$30

Old Machine Title & Invoice

$70

New Machine

New Machines

Old Machine

Old Machine

$70

Purchase Price

CAT LKE PILOT MEETING

LEASING ENTITY STRUCTURE

Benefits of Separate Leasing Entity Structure:

- Cash Flow

  – Parent acquires inventory from CAT.

  – Parent sells property to be rented to leasing entity through QI.

  – Leasing entity directs QI to pay Parent for equipment replaced.

  – Parent pays CAT invoice under normal terms

  – Estimated Annual Interest Expense on full implementation

    - Leasing Entity - $23,000-$600,000

    - One Legal Entity - $750,000 -$1,350,000

CAT LKE PILOT MEETING

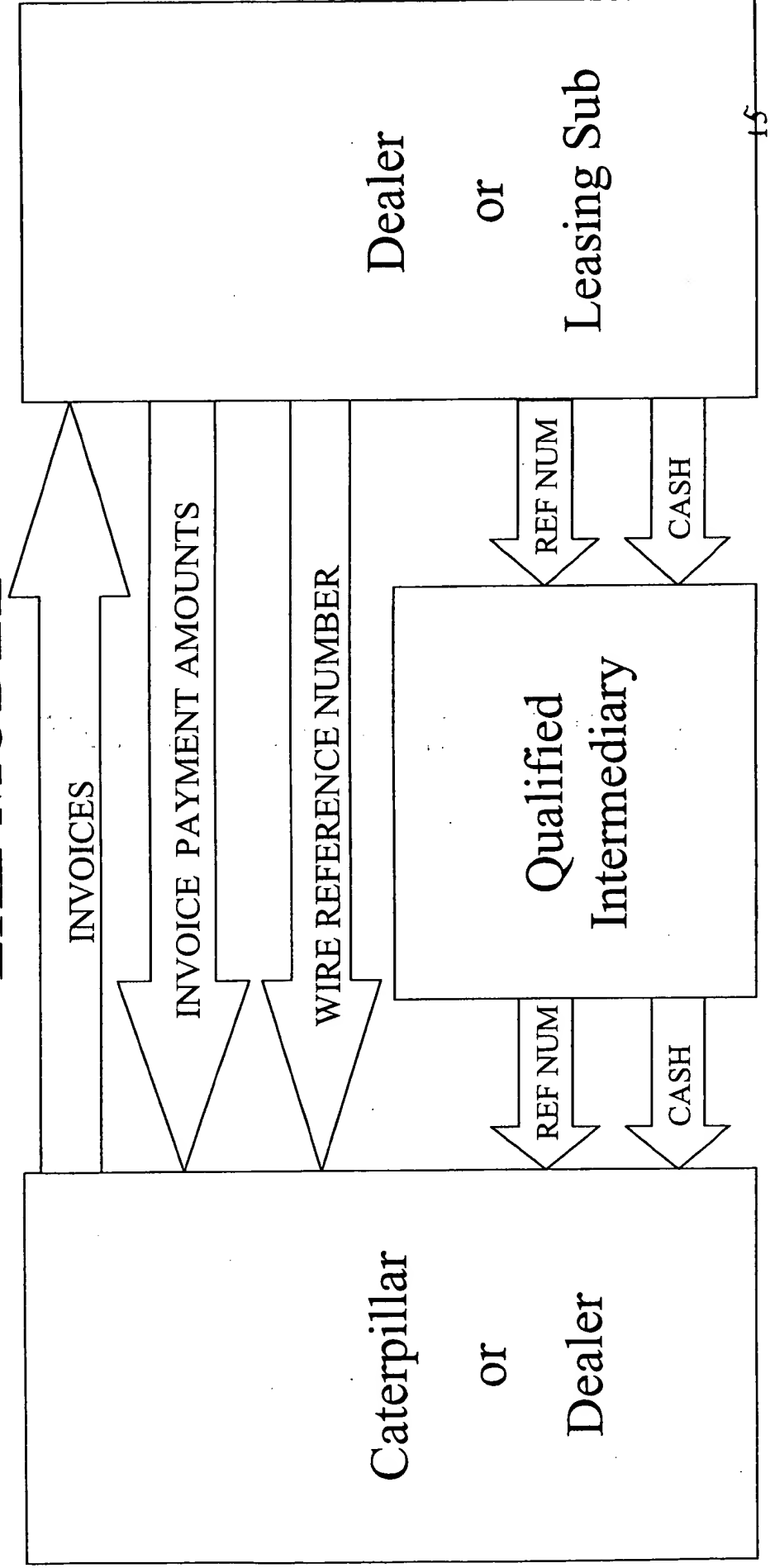## MACHINE PAYMENT CASH FLOW

CURRENT MODEL
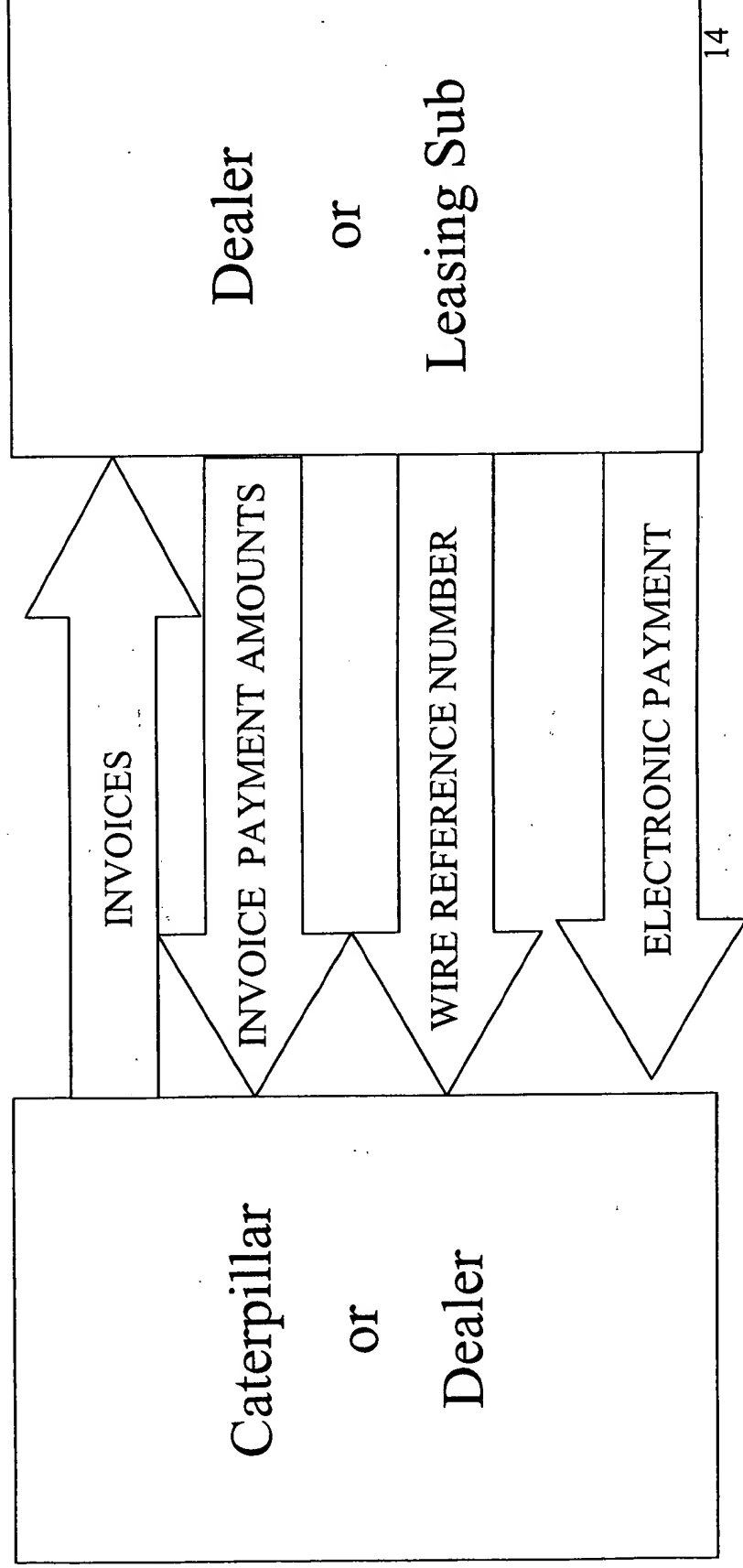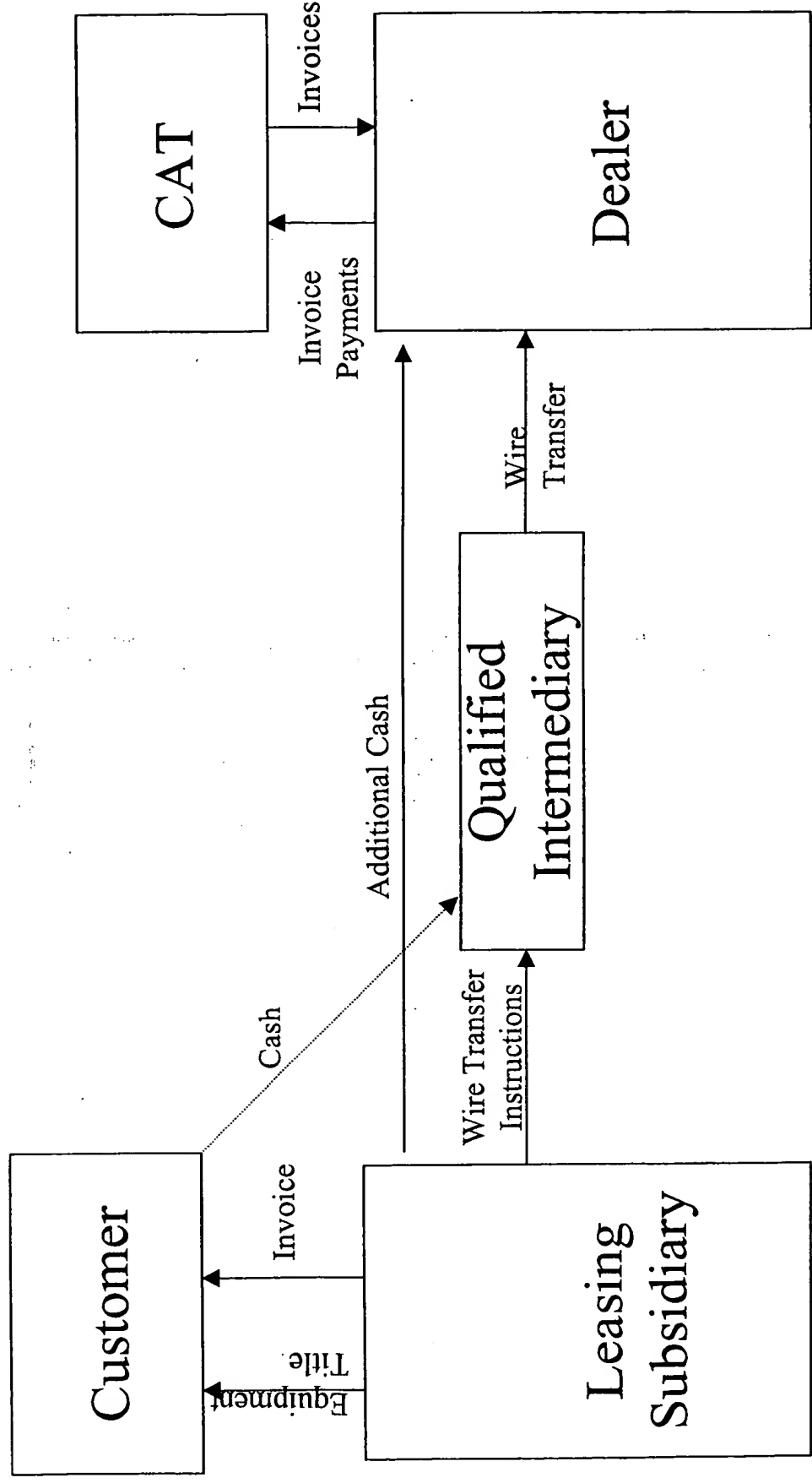
Dealer or Leasing Sub		Caterpillar or Dealer

14

INVOICES

INVOICE PAYMENT AMOUNTS

WIRE REFERENCE NUMBER

ELECTRONIC PAYMENT

CAT LKE PILOT MEETING
MACHINE PAYMENT CASH FLOW

LKE MODEL

Caterpillar or Dealer		Dealer or Leasing Sub

INVOICES

INVOICE PAYMENT AMOUNTS

WIRE REFERENCE NUMBER

Qualified Intermediary

REF NUM

CASH

REF NUM

CASH

CAT LKE PILOT MEETING
MACHINE PAYMENT CASH FLOW

LKE MODEL w/LEASING SUB

CAT LKE PILOT MEETING

LEASING ENTITY STRUCTURE

Benefits of Separate Leasing Entity Structure:

- Identification of Rental Property

  – Dealer purchases machines from CAT for its inventory.

  – When the leasing entity has identified a renter it purchases a machine from dealer's inventory.

  – Leasing entity identifies the machine as replacement property prior to its acquisition from the dealer.

  – Dealer conducting rental activity needs to identify purchase as being for rental fleet prior to its acquisition from CAT.
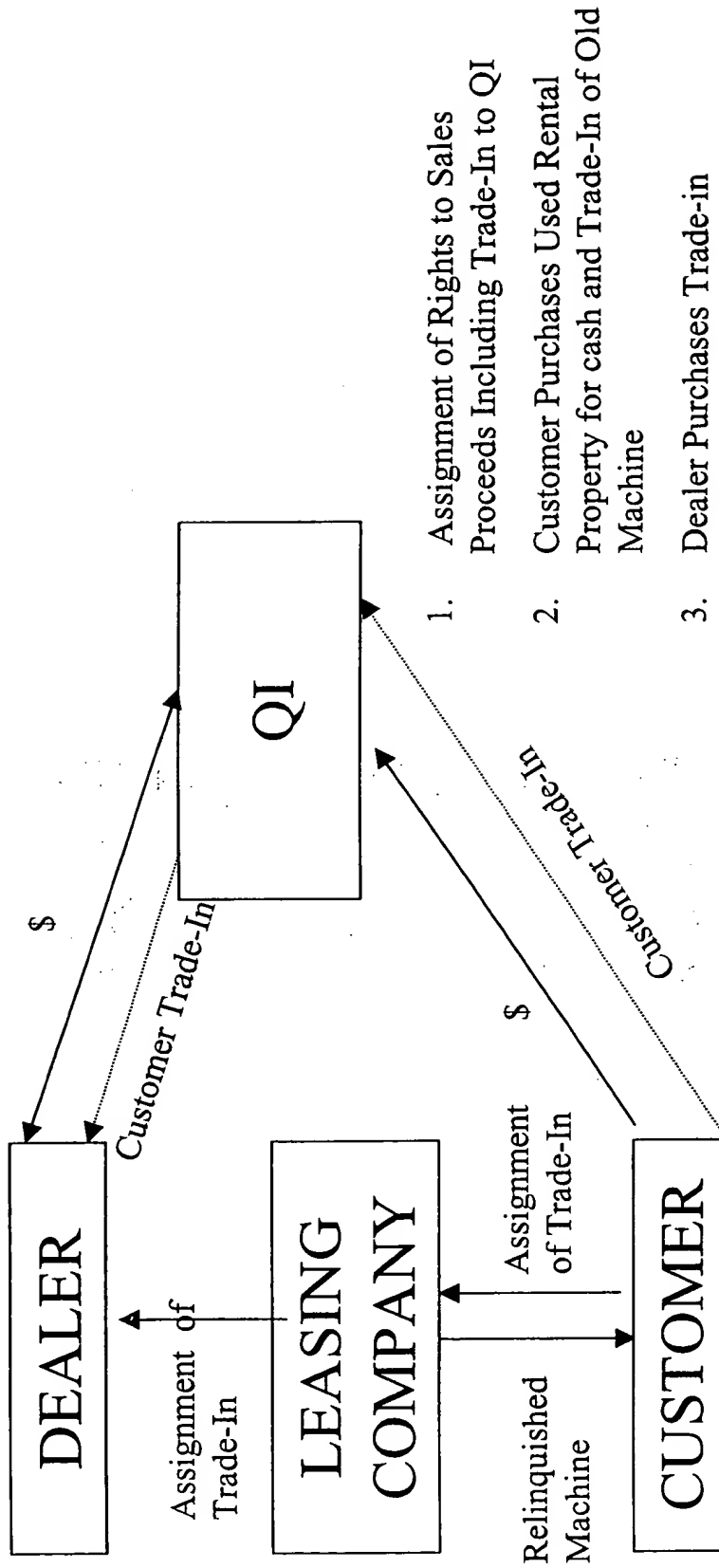
17

CAT LKE PILOT MEETING

LEASING ENTITY STRUCTURE

Benefits of Separate Leasing Entity Structure:

- Facilitates Trade-Ins

  - Lessor's receipt of trade-in to be sold is equivalent to receipt of cash causing gain recognition for the value of the trade-in.

  - Assignment of trade-in to QI and its purchase for sale or use by another entity with cash going to QI preserves gain deferral.

  - The purchaser from the QI in a single entity structure would need to be the eventual buyer of the trade-in equipment.

  - Leasing entity structure allows dealer to purchase trade-in from QI to be held in its inventory.

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CAT LKE PILOT MEETING

CUSTOMER TRADE-INS

1. Assignment of Rights to Sales Proceeds Including Trade-In to QI
2. Customer Purchases Used Rental Property for cash and Trade-In of Old Machine
3. Dealer Purchases Trade-in
4. Dealer Pays Cash to QI for Trade-in
5. Dealer Sells Trade-In to 3rd Party

QI

DEALER

LEASING COMPANY

CUSTOMER

$

Customer Trade-In

Customer Trade-In

$

Assignment of Trade-In

Assignment of Trade-In

Relinquished Machine

19

CAT LKE PILOT MEETING

LEASING ENTITY STRUCTURE

Benefits of Separate Leasing Entity Structure:

- Treatment As Depreciable Property.

  - The Dealer would hold inventory held for sale.

  - The leasing subsidiary would hold all rental property.

  - Having separate legal entities conducting the leasing and direct sales activities significantly reduces the potential for dual use property re-characterization of the rental fleet.

CAT LKE PILOT MEETING

LEASING ENTITY STRUCTURE

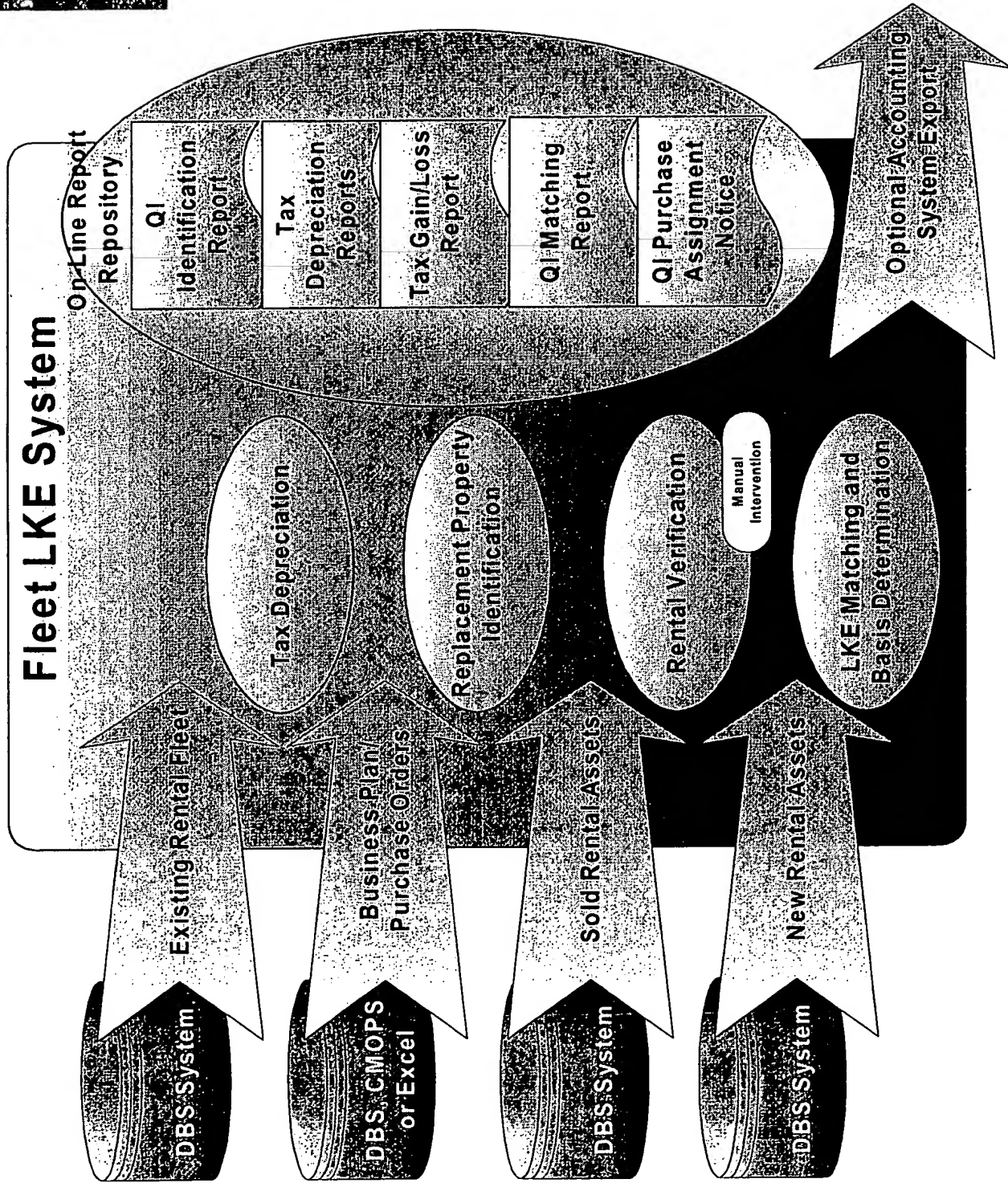Benefits of Separate Leasing Entity Structure:

- Warranty

  – Issue is when does the warranty period start?

  – If warranty period starts the first time a machine is rented then there is no advantage to leasing structure for this issue.

  – If warranty period starts the date machine is identified as rental property on financial statements, leasing structure provides a benefit.

  - **Single entity requires rental identification prior to acquisition from CAT.**

    - **Leasing entity identifies machine for rent after identifying renter but prior to equipment purchase from dealer.**
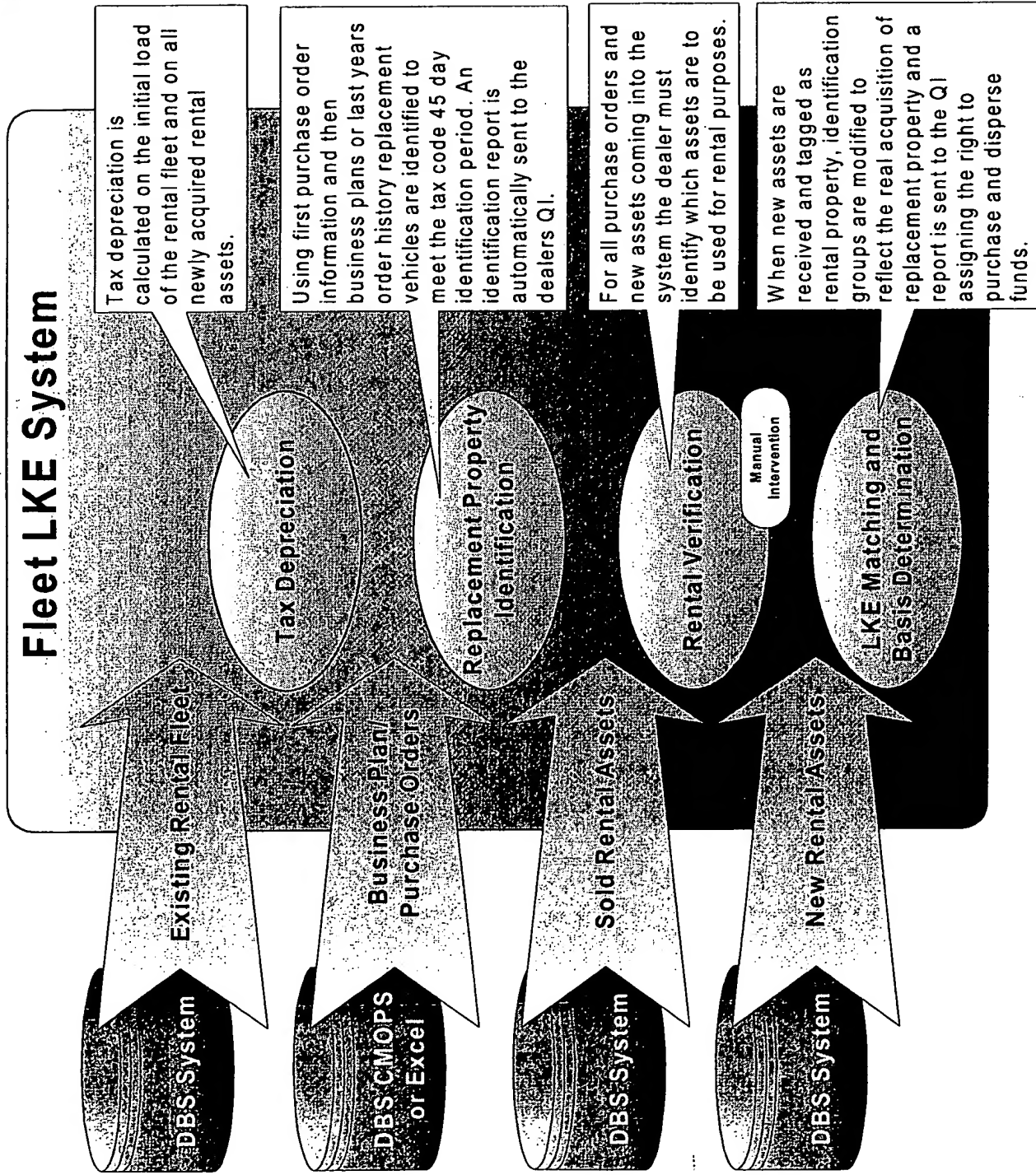
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CAT LKE PILOT MEETING

LKE System Overview

- System Requirements
- Extract Files
- Identification Module
- Matching Module
- Depreciation Module
- Equipment Module
- Reporting Module
- Cash Management Module

Fleet LKE System

On-Line Report Repository

- QI Identification Report
- Tax Depreciation Reports
- Tax Gain/Loss Report
- QI Matching Report
- QI Purchase Assignment Notice

Tax Depreciation

Replacement Property Identification

Rental Verification

Manual Intervention

LKE Matching and Basis Determination

Optional Accounting System Export

Existing Rental Fleet — DBS System

Business Plan/ Purchase Orders — DBS, CMOPS or Excel

Sold Rental Assets — DBS System

New Rental Assets — DBS System

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Fleet LKE System

Tax depreciation is calculated on the initial load of the rental fleet and on all newly acquired rental assets.

Using first purchase order information and then business plans or last years order history replacement vehicles are identified to meet the tax code 45 day identification period. An identification report is automatically sent to the dealers QI.

For all purchase orders and new assets coming into the system the dealer must identify which assets are to be used for rental purposes.

When new assets are received and tagged as rental property, identification groups are modified to reflect the real acquisition of replacement property and a report is sent to the QI assigning the right to purchase and disperse funds.

Tax Depreciation

Replacement Property Identification

Rental Verification

Manual Intervention

LKE Matching and Basis Determination

Existing Rental Fleet

Business Plan/ Purchase Orders

Sold Rental Assets

New Rental Assets

DBS System

DBS CMOPS or Excel

DBS System

DBS System

CAT LKE PILOT MEETING

System Requirements

Dealer System Requirements

- Pentium Computer
- Access to Internet
- MS Internet Explorer (Version 5.0- optimal)
- Adobe Acrobat Reader (Version 4.0- optimal)

CAT LKE PILOT MEETING

Extract Files

The Extract Files Used by the System:

- CAT Model Information

- Business Plan

- Sales Transactions

- Acquisitions

- Beginning Rental Property

CAT LKE PILOT MEETING

CAT Model Information

Information To Be Provided by CAT:

- Product Group ID
- Product Group Description
- Model Number (Pricing)
- SIC Code
- Estimated Cost

CAT LKE PILOT MEETING

CAT Model Information

Information to be Provided by CAT:

- Product Group ID
- Product Group Description
  - This information is used to sort machinery by CAT product family (e.g., Track Loaders).
  - Product family information is used when notifying QI of the identification of replacement property.

CAT LKE PILOT MEETING

CAT Model Information

Information to be Provided by CAT:

- Model Number (Pricing)
  - Used consistently among dealers.
  - Used to match business plan project purchase information with product family categories for identification module.

CAT LKE PILOT MEETING

CAT Model Information

Information to be Provided by CAT:

- SIC Code
  - The identification and matching of replacement property to relinquished property is with-in the same SIC Code.
  - Product family and model numbers will be grouped by SIC Code for LKE purposes.

CAT LKE PILOT MEETING

CAT Model Information

Information to be Provided by CAT:

- Estimated Cost
  - This is average dealer net cost information for a particular model number.
  - This information is only used internally by LKE system in the identification module.
  - Information is not communicated to QI.

CAT LKE PILOT MEETING

Business Plan

Business Plan Extract File Content:

- Model Number
- Projected Number of Units/Model Number
- Estimated Purchase Date (Optional)

CAT LKE PILOT MEETING

Business Plan

Business Plan Extract File Content:

- Model Number

  – This is the pricing model number used by all dealers versus the dealer specific model number.

  – Information is used in identification module to determine likely future product family acquisitions.

CAT LKE PILOT MEETING

Business Plan

Business Plan Extract File Content:

- Projected Number of Units/Model Number
  - Information is used in identification module to determine likely future product family acquisitions.

CAT LKE PILOT MEETING

Business Plan

Business Plan Extract File Content:

- Estimated Purchase Date (Optional)
  - This information is not used in system identification of potential replacement property.
  - The dealer can use information to assist in manual override of identification module determination.

CAT LKE PILOT MEETING

Business Plan

Business Plan File Modifications:

- Manual Adjustment
  - Change for particular model number

- Extract File
  - Override of all existing business plan information

CAT LKE PILOT MEETING
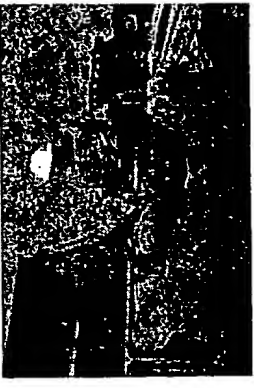
Sales Transaction

Sales Transaction Extract File Content:

- Unique System or ID Number (Dealer Specific)
- Serial Number
- Sales Price
- Date of Sale

CAT LKE PILOT MEETING

Sales Transaction

Sales Transaction Extract File Content:

- Unique System or ID Number (Dealer Specific)

  - This field is only used for generating reports.

  - The dealer can use this field to provide a basis when generating reports that match dealer's financial statement classification.

  - This ability to match financial statement groupings should simplify reconciliation of financial statement and LKE system information.

CAT LKE PILOT MEETING

Sales Transaction

Sales Transaction Extract File Content:

- Serial Number

  – Serial number is one of the only items that is consistently used by dealers.

  – Key tool in tracking specific machine:

    • Maintaining original acquisition,

    • Reporting depreciation expense,

    • Determining tax gain on sale of depreciated asset, and

    • Reporting the acquisition of replacement property.

CAT LKE PILOT MEETING

Sales Transaction

Sales Transaction Extract File Content:

- Sales Price

  - Amount of cash required to be invested in replacement property.

  - Additional charges for sales tax, loan documentation fees or other miscellaneous transaction charges are to be excluded.

  - Needed for cash management.

CAT LKE PILOT MEETING

Sales Transaction

Sales Transaction Extract File Content:

- Sales Price
  - Cash management
    - Entire sales invoice including sales tax, fees, and other billed expenses paid directly to QI.
    - Only Cash required to stay in QI equals the sales price.
    - Other amounts can be withdrawn by Lessor or used to make payments for replacement property.

CAT LKE PILOT MEETING

Sales Transaction

Sales Transaction Extract File Content:

- Sales Date

  - This is the date used by the identification and matching modules for starting the

    - 45-day identification of replacement property period, and
    - 180-day acquisition of replacement property period.
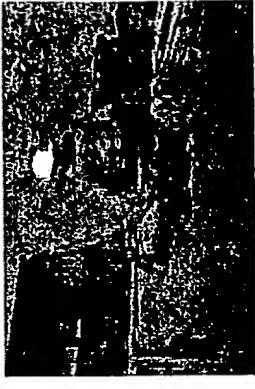
42

CAT LKE PILOT MEETING

Sales Transaction

Sales Transaction Extract File Modifications

- Manual Adjustment
    - Change for particular sales transaction by serial number.

- Extract File
    - Correction of existing sales transaction file by serial number.
    - Sales Credit
        - Original sales price is adjusted by sales credit with system calculating the revised sales price.

CAT LKE PILOT MEETING

Sales Transaction

Sales Transaction Extract File Modifications

- Extract File
  - Sales Credit
    - Send new sales transaction file with credit amount .
    - Original sales price is adjusted by sales credit with system calculating the revised sales price.
    - System will not automatically delete sales transaction if $0 sales price reported.

CAT LKE PILOT MEETING

Decision Tree For Sales Credits

Identification	Match	Result
N	N	OK
Y < 45	N	Breakup Identification
Y > 45	Y < 180	Identification Group (Break Up N
Y > 45	N	Keep Identification
Y > 45	Y > 180	Reject File
N	Y < 45	Breakup Match

CAT LKE PILOT MEETING

Acquisition Transaction

Acquisition Transaction Extract File Content:

- Legal Entity or Division
- Serial Number
- Acquisition Date
- Acquisition Cost
- Tax Only Basis Adjustments
- Book Only Basis Adjustments

CAT LKE PILOT MEETING

Acquisition Transaction

Acquisition Transaction Extract File Content:

- System needs the information necessary to determine tax acquisition cost for both tax depreciation and matching modules.

- Goal is to provide information necessary for reporting module to allow easy reconciliation with financial statement information.

CAT LKE PILOT MEETING
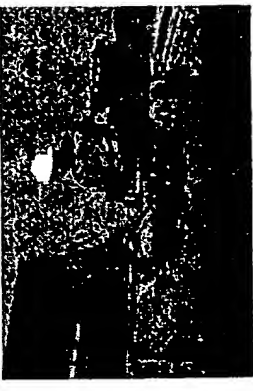
Acquisition Transaction

Acquisition Transaction Extract File Content:

- Legal Entity

  - Used to track information by legal entity.

  - LKE relinquishment and replacement property must occur in same legal entity.

  - Used in matching module to determine potential to be treated as replacement property.

CAT LKE PILOT MEETING

Acquisition Transaction

Acquisition Transaction Extract File Content:

- Serial Number
  - This one of the only items that is consistently used by dealers.
  - Key tool in tracking specific machine:
    - Maintaining original acquisition,
    - Reporting depreciation expense,
    - Determining tax gain on sale of depreciated asset, and
    - Reporting the acquisition of replacement property.

CAT LKE PILOT MEETING

Acquisition Transaction

Acquisition Transaction Extract File Content:

- Acquisition Date

  – Acquisition date equals the invoice date.

  – Used for depreciation purposes.

  – Matching model uses information for replacement property identification.

CAT LKE PILOT MEETING
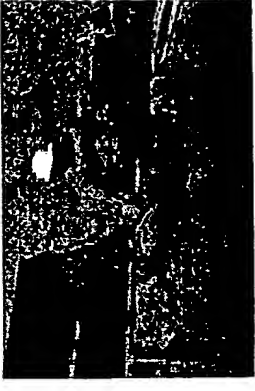
Acquisition Transaction

Acquisition Transaction Extract File Content:

- Acquisition Cost

  – Acquisition Cost is invoice price plus additional costs capitalized for both book and tax.

  – The invoice price should be dealer net cost on invoice prior to cash discount.

  – In addition, costs capitalized for both book and tax should be included in this field (e.g., freight).

CAT LKE PILOT MEETING

Acquisition Transaction

Acquisition Transaction Extract File Content:

- Tax Only Basis Adjustments

  – Original Issue Discount

    • For portion of invoice price characterized as interest expense.

  – Purchase Discount

  – Other

CAT LKE PILOT MEETING

Acquisition Transaction

Acquisition Transaction Extract File Content:

- Book Only Basis Adjustments
  - This would include repair costs capitalized for book but not for tax.

CAT LKE PILOT MEETING

Acquisition Transaction

Acquisition Transaction Extract File Modifications:

- Manual Adjustment
  - Change for particular acquisition transaction by serial number in depreciation module.

- Extract File
  - Replaces all information in existing acquisition transaction file by serial number.

CAT LKE PILOT MEETING

Reconciliation of Book & Tax

TAX

- \+ Acquisition Cost
- \- OID
- \- Purchase Discount
- ± Other
- = Tax Basis
- \- Deferred Gain
- = Adjusted Tax Basis
- \- Cumulative Depreciation
- = Net Tax Value

BOOK

- \+ Acquisition Cost
- ± Non-tax Book Adjustments
- = Book Basis
- \- 80/20 Cumulative Depreciation
- = Net Book Value

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CAT LKE PILOT MEETING
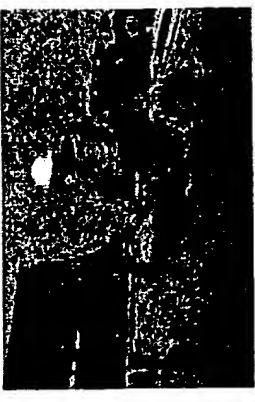
Beginning Rental Property

Beginning Rental Property Extract File Content:

- Information needed is identical to acquisition transaction extract file.

- A one-time only load of all existing rental property into system.

- Acquisition transaction extract file should identify all future rental property additions.

CAT LKE PILOT MEETING

Identification Module

Function of the Identification Module:

- 45-Day Identification Period

- Extract Files Used

- LKE Property

- 3 to 1 Identification Method

- 200% Identification Method
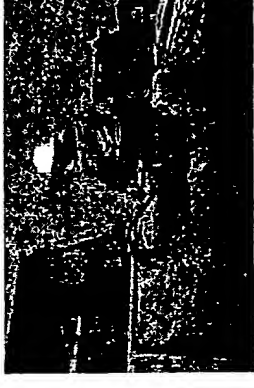
CAT LKE PILOT MEETING

Identification Module

Function of the Identification Module:

- 45-Day Identification Period

  – Any replacement property will be considered not Like-Kind if such property is not identified as property to be received in the exchange on or before the 45th day after property is relinquished.
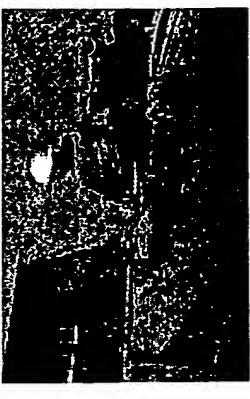
CAT LKE PILOT MEETING

Identification Module

Function of the Identification Module:

- Extract Files Used
  - Sales
  - Business Plan
  - CAT Model Information

CAT LKE PILOT MEETING

Identification Module

Function of the Identification Module:

- LKE Property

  – Potential replacement property is identified as being in same SIC Code as relinquished property.

  – Automatic Reporting to QI is based on the identification of the specific CAT Product Family that will be replacement property.

CAT LKE PILOT MEETING

LKE Property

SIC Codes & Product Family

SIC Code: 3531 - Construction

Product Families: Track-type tractor, Track Loader, Skid Steer
                   Loaders, Pipelayers, Wheel Loaders, Backhoe
                   Loaders, Excavators, Front Shovels, Scrapers,
                   Motor Graders

SIC Code: 3523 - Agriculture

Product Families: Agricultural Tractors, Combines

CAT LKE PILOT MEETING

Identification Module

Function of the Identification Module:

- 3 to 1 Identification Method
  - Requirements to use method
  - Automatic process
  - Potential to override system selection
  - Logic used in identification

CAT LKE PILOT MEETING

Identification Module

Function of the Identification Module:

- 3 to 1 Identification Method

  – Requirements to use method

    - The dealer is allowed to identify three like-kind items as potential replacement property prior to expiration of 45-day period post-sale period.

    - Identification needs to be specific enough to notify QI what is the potential replacement property.

    - Notification will be done at product family level.

CAT LKE PILOT MEETING

Identification Module

Function of the Identification Module:

- 3 to 1 Identification Method

  - Automatic process

    - The identification of replacement property occurs the night notification of a sale has been transmitted.

    - Dealer has approximately 40 days to override system decision.

    - System sends notification to QI approximately 42 days after sale.

CAT LKE PILOT MEETING
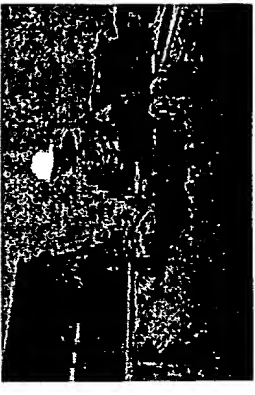
Identification Module

Function of the Identification Module:

- 3 to 1 Identification Method

  – Potential to override system identification

    • Most of each module's visible functions are reports based on database, results of automatic functions, and override capabilities.

    • The dealer always has the option to override a system decision to the extent allowed by LKE provisions.

    • The dealer may modify families identified or use 200% method.

CAT LKE PILOT MEETING

Identification Module

Function of the Identification Module:

- 3 to 1 Identification Method
  - Logic used in identification.
    - Model number of relinquished unit is used to determine applicable SIC code.
    - CAT Model Information database and business plan are used to identify potential replacement property.
    - Three product families will be identified.
   - Information sent to QI includes the list of three product families and identification of units relinquished.

CAT LKE PILOT MEETING

Identification Module

Function of the Identification Module:

- 200% Identification Method

  – Dealer can identify any number of model numbers in same SIC code as relinquished property as long as total acquisition cost of group is less than 200% of sales proceeds.

  – Method is not used by system for identification. Functionality provided to allow dealer to override system identification.
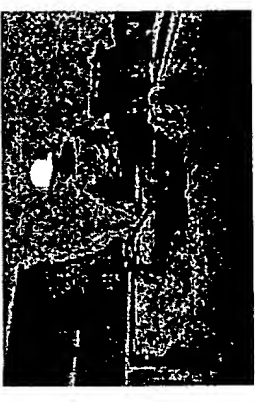
CAT LKE PILOT MEETING

Matching Module

Function of Matching Module:

- 180-Day Matching Rule
- Extract Files and Modules Used
- LKE Property
- Logic of Module
- Modifications
- Impact on QI Cash Disbursements

CAT LKE PILOT MEETING

Matching Module

Function of Matching Module:

- 180-Day Matching Rule

    – Assuming replacement property is identified within 45 days, any replacement property will be considered not Like-Kind if such property is received after the earlier of the day which is 180 days after the date on which the relinquished property is transferred or the due date (including extensions) of the taxpayer's tax return.

CAT LKE PILOT MEETING

Matching Module

Function of Matching Module:

- Extract Files and Modules Used

  – Acquisition Transaction File

  – Sales Transaction File

  – CAT Model Information File

  – Identification Module

CAT LKE PILOT MEETING

Matching Module

Function of Matching Module:

- LKE Property

  – Potential replacement property is identified as being in same SIC Code as relinquished property.

  – Automatic Matching and Reporting to QI is based on identification of specific CAT equipment purchases to be qualified replacement property.

CAT LKE PILOT MEETING

LKE Property

SIC Codes & Product Family

SIC Code: 3531 - Construction

Product Families: Track-type tractor, Track Loader, Skid Steer Loaders, Pipelayers, Wheel Loaders, Backhoe Loaders, Excavators, Front Shovels, Scrapers, Motor Graders

SIC Code: 3523 - Agriculture

Product Families: Agricultural Tractors, Combines

CAT LKE PILOT MEETING

Matching Module

Function of Matching Module:

- Logic of Module
  - Limits search to relinquishments in same SIC Code.
  - Looks for oldest relinquished item with sales price less than tax acquisition cost of eligible property.
  - Is relinquished item sold after QI notification?
    - Yes, is item in the same product family as identified to QI?
      - **Yes, then match.**

CAT LKE PILOT MEETING

Matching Module

Function of Matching Module:

- Logic of Module

  – If acquired prior to QI notification it is a match.

  – If no match after this process acquisition will not automatically be identified as replacement property.

CAT LKE PILOT MEETING

Matching Module

Function of Matching Module:

- Modifications

  - Potential to override system match

    - Most of each module's visible functions are reports based on database, results of automatic functions, and override capabilities.

    - The dealer always has the option to override a system decision to extent allowed by LKE provisions.

CAT LKE PILOT MEETING

Matching Module

Function of Matching Module:

- Impact on QI Cash Disbursements

  – No cash is available for distribution from QI until QI is notified of the acquisition of qualified replacement property.

  – Cash proceeds equal to sales price of relinquished property need to be retained in QI account until a match has been made.

CAT LKE PILOT MEETING

Depreciation Module

Function of Depreciation Module

- Extract Files Used

- Depreciation Calculations

CAT LKE PILOT MEETING

Depreciation Module

Function of Depreciation Module

- Extract Files Used
  - Beginning Rental Property File
  - Acquisition Transaction File
  - Sale Transaction File
  - Matching Module

CAT LKE PILOT MEETING

Depreciation Module

Function of Depreciation Module

- Depreciation Calculations

  – Choose Tax Depreciation Methods (MACRS, AMT, etc.)

  – MACRS - Choose Half Year or Mid-Quarter Convention

  – MACRS - Placed in Service Date

  – MACRS Full Year/Half Year Depreciation

  – Reconcile LKE System to Dealer Records

CAT LKE PILOT MEETING

Equipment Module

Function of Equipment Module

- Extract Files and Modules Used
- Review Equipment Information
- Review Business Plan
- Manual Changes

CAT LKE PILOT MEETING

Equipment Module

Function of Equipment Module

- Extract Files and Modules Used

  - This module pulls information from all extract files.

  - Used with Identification, Matching and Depreciation Modules.

CAT LKE PILOT MEETING

Equipment Module

Function of Equipment Module

- Review Equipment Information
  - Numerous views to review equipment information.
  - Allows for manual modification of equipment information versus use of acquisition extract file override.

CAT LKE PILOT MEETING

Equipment Module

Function of Equipment Module

- Review Business Plan Information

  – Review of business plan information included in system.

  – Allows for manual modification of business plan or dealer may override business plan extract file.

CAT LKE PILOT MEETING

Reporting Module

Function of Reporting Module

- Reports Available
- Report Requests
- Notifications to Qualified Intermediary

CAT LKE PILOT MEETING

Reporting Module

Function of Reporting Module

- Reports Available
  - Annual Acquisitions Report
  - Daily (and Annual) Identification Reports (Separate QI Reports)
  - Daily (and Annual) Matching Reports
  - Monthly (and Annual) Tax Depreciation Reports

CAT LKE PILOT MEETING

Reporting Module

Function of Reporting Module

- Reports Available
  - Monthly (and Annual) Book Depreciation Reports
  - Monthly (and Annual) Gain/Loss Report Report Requests
  - Daily Notifications to Qualified Intermediary

CAT LKE PILOT MEETING

Reporting Module

Function of Reporting Module

- Report Requests

  - Create Reports Manually

  - Automatic Monthly Reports

  - Sample Reports

CAT LKE PILOT MEETING

Reporting Module

Function of Reporting Module

- Notifications to Qualified Intermediary
  - Identifications - Two Business Days Before
    45th Day
  - Matching Report - Two Business Days Before
    180th May

CAT LKE PILOT MEETING

Cash Management Module

Function of Cash Management Module

- Information from QI
- QI Cash Disbursements
- Fungibility of Cash
- Models

CAT LKE PILOT MEETING

Cash Management Module

Function of Cash Management Module

- Information from QI

  - Cash Collection

    - Customer Cash Payments

      – Separate vendor number

    - CFSC Financing Payments

      – Separate entity number

  - Account Balance

CAT LKE PILOT MEETING

Cash Management Module

Function of Cash Management Module

- QI Cash Disbursements

  – QI needs to be instructed to disburse cash from the account.

  – Cash in amount equal to sales price of unmatched relinquished assets must remain in account.

CAT LKE PILOT MEETING

Cash Management Module

Function of Cash Management Module

- Fungibility of Cash

  – Goal is to minimize cash held in QI account.

  – Issue to be addressed in Private Letter Ruling.

  – Will not utilize concept until favorable ruling is received.

CAT LKE PILOT MEETING
MACHINE PAYMENT CASH FLOW
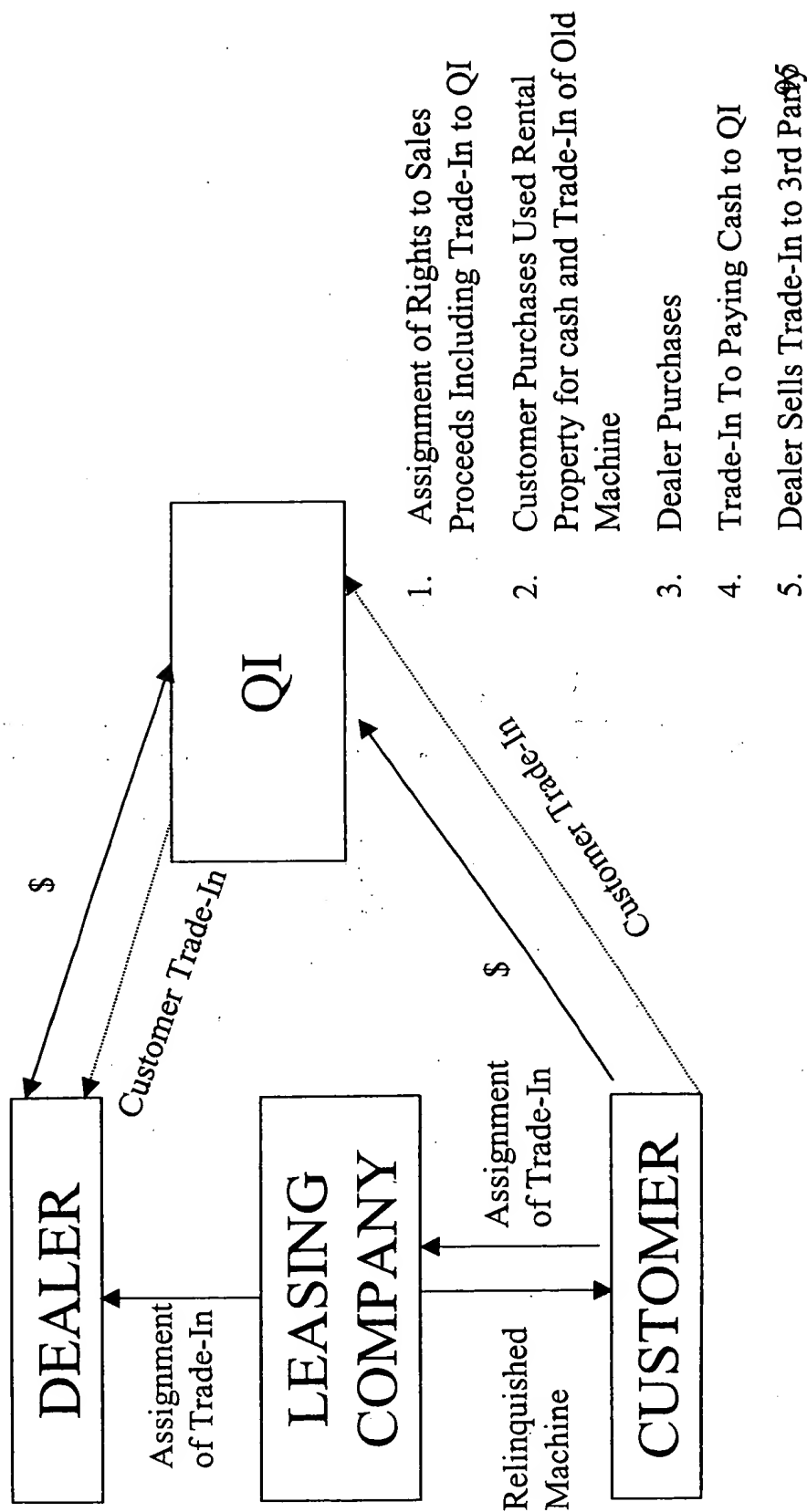## LKE MODEL w/LEASING SUB
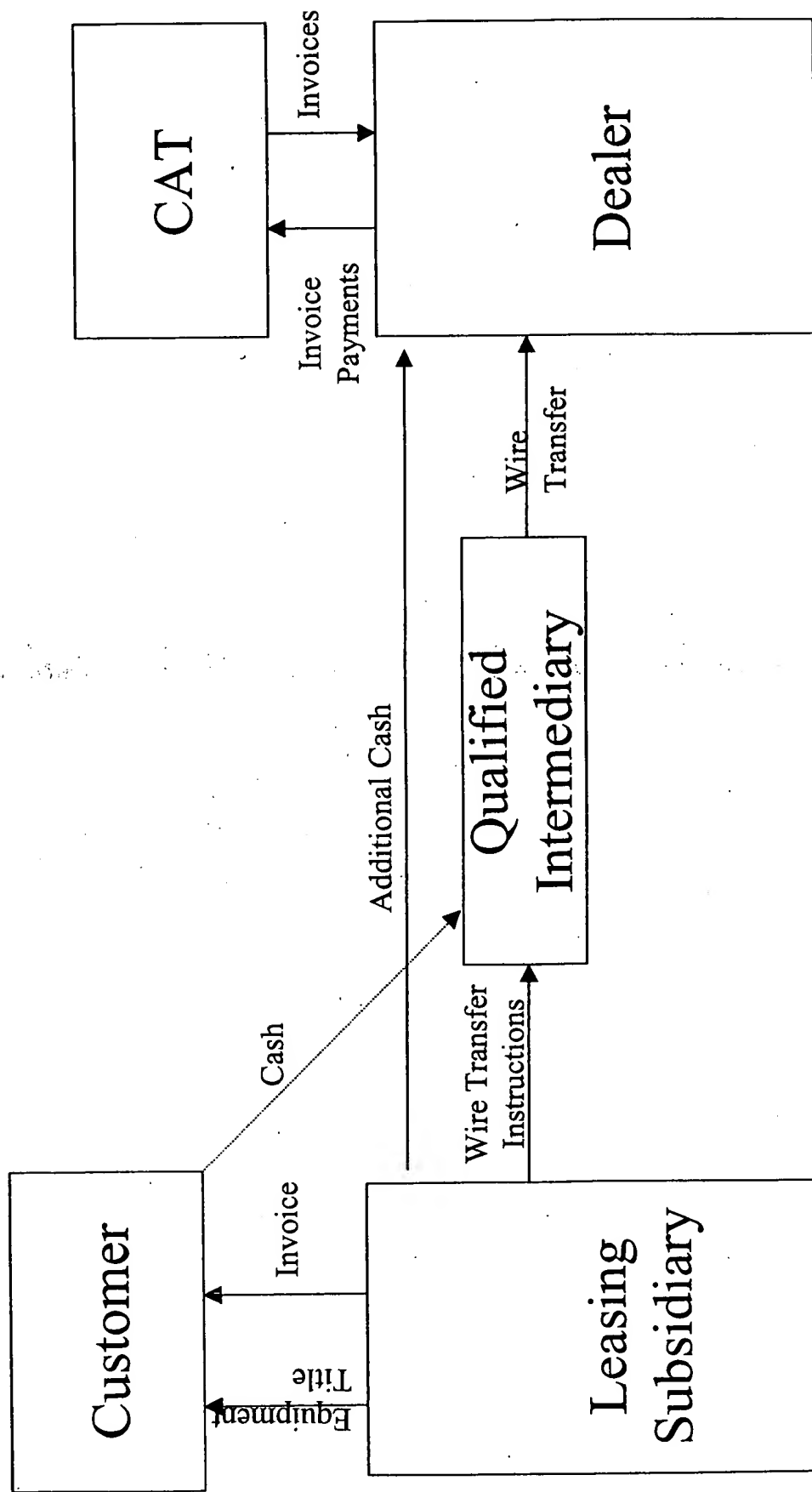
CAT LKE PILOT MEETING

TRADE-IN

Benefits of Separate Leasing Entity Structure:

- Facilitates Trade-Ins

  - Lessor's receipt of trade-in to be sold is equivalent to receipt of cash causing gain recognition for the value of the trade-in.

  - Assignment of trade-in to QI and its purchase for sale or use by another entity with cash going to QI preserves gain deferral.

  - The purchaser from the QI in a single entity structure would need to be the eventual buyer of the trade-in equipment.

  - Leasing entity structure allows dealer to purchase trade-in from QI to be held in its inventory.

CAT LKE PILOT MEETING

CUSTOMER TRADE-INS

QI

DEALER

LEASING COMPANY

CUSTOMER

$

$

Customer Trade-In

Customer Trade-In

Assignment of Trade-In

Assignment of Trade-In

Relinquished Machine

1. Assignment of Rights to Sales Proceeds Including Trade-In to QI

2. Customer Purchases Used Rental Property for cash and Trade-In of Old Machine

3. Dealer Purchases

4. Trade-In To Paying Cash to QI

5. Dealer Sells Trade-In to 3rd Party

CAT LKE PILOT MEETING

Attachments

- Dealer's Option to Trade Attachments

- Track Attachments by Serial Number

- Add Attachment to Prime Mover Equipment Module

- Allocate Portion of Acquisition Cost to the Attachment When Removed From Prime Mover